

## INQUIRY 2

State whether Pendleton C. Waugh, the Hebrank Voting Trust, or any trust for which Mr. Waugh is a beneficiary, has held at any time or currently holds any outstanding stock in PCSI.

Neither Pendleton C. Waugh, the Raymond A. Hebrank Voting Trust, nor any other trust for the benefit of Mr. Waugh has ever held or currently holds any shares of Preferred.

### INQUIRY 3

State whether the Amended and Restated Voting Trust contained at Bates No. PCS102227-35 was ever executed. If so, specify when and by whom and provide a copy of any executed Amended and Restated Voting Trust Agreement.

As noted above in the response to Inquiry #1, on April 14, 2005, Mr. Waugh and Mr. Hebrank executed an Amended and Restated Voting Trust Agreement, copy provided as (000013-000021). As of the date of this response the remaining items need to be completed to effectuate the Raymond A. Hebrank Voting Trust:

- (1) payment of the trustee's compensation under the Amended and Restated Voting Trust Agreement;
- (2) filing for the voting trust's federal taxpayer identification number; and
- (3) transfer of funds by Mr. Waugh to the voting trust that then would tender such funds to Preferred to purchase shares.

- (a) If that document was never executed, indicate the current status of the Hebrank-Waugh Voting Trust, dated April 14, 2000.

As noted above in the response to Inquiry #3, three issues remain outstanding with respect to the Raymond A. Hebrank Voting Trust.

#### INQUIRY 4

State whether the Raymond A. Hebrank Voting Trust identified in the document contained at Bates No. PCS102093-98, item 3.c., is the same trust referenced herein as the Hebrank- Waugh Voting Trust and described at PCS102215-220. If not, describe the trust referenced in PCS102093-98. Provide copies of any trust agreement for the Raymond A. Hebrank Voting Trust.

The Voting Trust referenced at Bates No. PCS102093-98 is the same voting trust identified at PCS102215-220. Copy is provided at (000007-000012)

- (a) Explain in detail the Core Group Members' share ownership of PCSI. Provide any and all Documents related to such share ownership.

The term "Core Group" was defined as Charles M. Austin, Jay R. Bishop, Michelle D. Bishop, Charles D. Guskey and Pendleton C. Waugh. As stated in other responses to this Letter of Inquiry, Mr. Austin presently holds 800,000 shares of Common Stock. Upon proper creation of a voting trust for the Bishops complying with both FCC and SEC rules, payment by such voting trust of the appropriate amount to Preferred to acquire shares and FCC approval of a transfer of control application, such voting trust would be issued 800,000 shares of the Company's Common Stock. Upon resolution of the number of shares to be issued to Mr. Charles Guskey in exchange for his advances totaling approximately \$320,000 in 1998-1999, he would be issued those shares of Common Stock. Upon Mr. Waugh's proper creation of a voting trust complying with both FCC and SEC rules, payment by such voting trust of the appropriate amount to Preferred to acquire shares and FCC approval of a transfer of control application, such voting trust would be issued 800,000 shares of the Company's Common Stock.

- (b) Describe in detail all efforts made by PCSI to resolve share ownership related to the Core Group Members discussed in PCS102093-98. Provide all Documents related to such efforts.

Please refer to the response to Inquiry #5(c).

## INQUIRY 5

Provide the full names of all individuals referenced in the Memorandum contained at Bates No. PCS102028-29.

The full names of such persons are as follows:

- (a) Charles M. Austin;
- (b) Jay R. Bishop;
- (c) Michelle D. Bishop;
- (d) Charles D. Guskey; and
- (e) the Estate of Chandu Patel.

- (a) Explain in detail what Mr. Waugh meant by "resolution of the initial group's . . . stock ownership."

In 1998, The Core Group members (Charles M. Austin, Jay R. Bishop, Michelle D. Bishop, Charles D. Guskey and Pendleton C. Waugh) and Chandu Patel disagreed strongly among themselves with respect to the share ownership of the various members of such Group. The Bishops and Mr. Guskey maintained that each of them was entitled to be issued 800,000 shares of Common Stock of Preferred pursuant to either the original verbal agreement between Messrs. Austin, Bishop and Waugh or Mr. Guskey's purported understanding of what he would receive for advancing Preferred approximately \$330,000 during 1998-1999. Messrs. Austin and Waugh maintained that the share ownership should be determined according to the relative contributions of the Core Group members with respect to the Company's purchase of 800 MHz General Category site licenses in Puerto Rico and the U.S. Virgin Islands and the timely construction of those licenses, participation in the litigation commenced by Telecellular, Inc. in 1998 and its and Dee Ann Wunschel's respective challenges to the transfer of those site licenses to Preferred in 1998-1999 as well as the preparation and execution of the Company's successful bidding strategy in FCC Auction #34. Mr. Patel held a similar view to that of Messrs. Austin and Waugh and was unwilling to consider converting some portion of the Company's FCC Auction #34 loans into shares of its Preferred Stock unless the Bishops and Mr. Guskey would agree to accept far fewer than the 800,000 shares of Common Stock each claimed.

- (c) Describe in detail all efforts made by PCSI to resolve the initial group's stock ownership as discussed in PCSI02028-29. Provide all Documents related to such efforts.

Mr. Austin and Mr. Waugh both prepared memoranda that they distributed to the Bishops and Mr. Guskey in which they set forth various proposals for consideration. During 2000 and 2002-2003 Mr. Waugh met on numerous occasions with Mr. Guskey in Dallas, Texas to discuss his position and suggest that he accept a compromise. Mr. Austin had numerous telephone conversations and personal meetings with the Bishops during this period to persuade the Bishops both to form a voting trust and accept fewer shares of Common Stock. As of the date of this response Preferred has been unable to persuade the Bishops to form a voting trust complying with FCC and SEC rules and reach a compromise with Mr. Guskey with respect to the number of shares of Common

Stock he is to be issued in exchange for his advances in 1998-1999 totaling approximately \$320,000. (000022-000023)

## INQUIRY 6

**Identify the document contained as Attachment B hereto (Bates No. P0000242-257). State whether it is a true and correct copy of an Agreement and Plan of Reorganization ("Reorganization Plan") involving PCSI. Provide a copy of the document from PCSI's files. With respect to such document:**

Preferred asserts Attorney-Client Privilege with respect to the Documents identified as Attachment B (bates P0001353). This document and a number of others, which appear to have been stolen and provided to the Commission, were prepared for and by our legal counsel for internal matters. Without waiving the attorney client privilege on this document and the matters it relates to, Preferred provides the following response.

The Document identified as Attachment B (Bates 242-257) was an attorney prepared draft (revision 7) of a plan for reorganization of Preferred's capital structure. The final version was completed in November 2006 and is identified as (000024-000054).

- (a) State when the Reorganization Plan was drafted and identify all persons who were involved in any manner in drafting and/or reviewing the document.**

At the recommendation of legal counsel as part of the Company's corporate clean-up, the Company proposed to change its name as a means to recall its outstanding certificates and reissue such certificates in the amounts and names that had originally been contemplated at the time of Preferred's incorporation. The initial draft was begun in September 2005, with 10 revisions made to the document. The Document identified as Attachment B was revision 7. The final version was completed in November 2006 and is identified as (000024-000054). Lance Hardenburg, Charles Ryan, Charles M. Austin, Michael Lawler, Linda McClain, and Pendleton C. Waugh were parties to reviewing and commenting on various versions of the document.

- (b) Explain why the Reorganization Plan was drafted. If Attachment B is not the final document, provide a copy of the final document. Identify all individuals to whom the document was sent and specify when.**

Upon the resignation of Michelle Bishop as Preferred's Secretary and Treasurer, a review of its corporate books was undertaken. At the conclusion of such review, the Company concluded that few, if any, of its books, records and documents had been prepared and maintained appropriately. On or about December 1, 2006, Preferred undertook a solicitation of approval for the reorganization and recapitalization of the company. This solicitation included the mailing of (000024-000054) to all of the investors and related parties of the Company. A list is provided at (000048-000053).

- (d) Describe all sources of information relied upon in preparing Schedule 1(c) of the Reorganization Plan. Provide copies of all such source Documents.**

Schedule 1(c) was one of several working drafts prepared by Charles M. Austin and kept on his office computer. These "working drafts" changed frequently. No records were kept of the multiple draft changes. In an effort to determine what Michelle Bishop, the previous corporate secretary had done and what personal and corporate commitments for stock and other compensation had been made either in writing or orally and to whom,

Charles M. Austin and Linda McClain undertook a review of Preferred's books, records and written and verbal agreements and began cataloging them on Mr. Austin's computer. *This document was intended to be confidential in nature and was prepared to be sent only to Lance Hardenburg to assist his efforts to determine the status of the Company's shares and records and to provide appropriate legal advice.* This Schedule created a list which combined stock that already had been issued and written and verbal commitments to issue stock (Raymond A. Hebrank Voting Trust and a voting trust to be established for the Bishops) or agreements with investors and past employees/consultants to issue shares. The Schedule 1(c) is not a final version. Rather, it was an early version and was known by those working on the clean-up project to be a starting point to correct previously committed errors.

- (d) The shareholder identified in line one of Schedule 1(c) is "Charles M. Austin." Provide copies of all Documents associated with that stock transfer.

In responding to this inquiry, Preferred has provided Minutes of the meeting held on April 23, 1999 which authorized the issuance of 800,000 shares to Charles M. Austin. A copy is provided at (000781-000786). A certificate was prepared, but was lost and a replacement stock certificate was issued. A copy is provided at (000870).

- (e) The shareholder identified in line two of Schedule 1(c) is the "Ray Hebrank Voting Trust." Provide copies of that trust and provide copies of all Documents associated with that stock transfer.

As detailed in the Response to Inquiry #1, the Raymond A. Hebrank Voting Trust was not issued stock and as such there was no stock transfer. A copy of that voting trust agreement is provided at (000007-000012).

- (f) The shareholders identified in line three of Schedule 1(c) are "Jay and Michelle Bishop." Provide copies of all Documents associated with that stock transfer.

As detailed in the response to Inquiry #1, Jay Bishop and Michelle Bishop were not issued stock and as such there was no stock transfer.

- (g) State whether the Reorganization Plan was ever executed. If so, identify all individuals who executed the document, specify when, and provide copies of all executed Documents, including any amendments to the Reorganization Plan.

As of the date of this response, the reorganization has not been completed and no amendments have been filed with the State of Delaware. The Company is still attempting to complete the Reorganization by collecting outstanding approval notices.

- (h) If the Reorganization Plan was not executed, explain why not.

As stated in the response to Inquiry #6(g), the Company is still in the process of collecting outstanding approvals from the investors and shareholders so that the Board of Directors may ratify the reorganization and direct that the necessary documents be filed with the State of Delaware and with the Federal Communications Commission.

#### INQUIRY 7

Identify the document contained as Attachment C hereto (Bates No. P0001353). State whether it is a true and correct copy of a document entitled "Preferred Communication Systems, Inc. - Shareholders of Preferred Communication Systems, Inc. Based on Either the Issue of Stock or Agreement." Provide a copy of this document from PCSI's files.

Preferred asserts Attorney-Client Privilege on the documents identified as Attachment C (Bates P0001353). This document and a number of others, which appear to have been stolen and provided to the Commission were prepared for and by our legal counsel for internal matters. Without waiving the attorney client privilege on this document and the matters it relates to, Preferred provides the following response.

- (a) Identify the author(s) of this document, and state why the document was prepared.

The document was prepared by Charles M. Austin at the request of the outside corporate attorney Lance Hardenburg in an effort to provide a spreadsheet of the stock book. This document was used as the basis for Mr. Austin and Mr. Hardenburg to identify what stock certificates were not correctly issued, the reason why they were not correctly issued and to request a legal solution to correct the errors or problems with the corporate records, including but not limited to, the stock ledger.

- (b) Describe all sources of information the drafter(s) used in preparing the document. Provide copies of all such source Documents.

In preparing the draft of the spreadsheet, Mr. Austin interviewed Mr. Pendleton Waugh, Ms. Michelle Bishop, and Ms. Linda McClain. Moreover, he undertook a review of the corporate stock ledger (000821-001001). These interviews and document review were used to supplement Mr. Austin's own memory.

- (c) State whether PCSI issued 800,000 shares of common stock to the Hebrank-Waugh Voting Trust on or about April 14, 2000 or on any other date. If so, provide copies of Documents related to such stock issuance.

As detailed in the response to Inquiry #1, the Raymond A. Hebrank Voting Trust was not issued stock.

- (d) State whether 800,000 shares of PCSI common stock were issued to Charles M. Austin. If so, specify when the shares were issued to Mr. Austin and provide a copy of all Documents related to that stock issuance.

In responding to this inquiry, Preferred has provided Minutes of the meeting held on April 23, 1999 which authorized the issuance of 800,000 shares to Charles M. Austin. A copy is provided at (000781-000786) A certificate was prepared, but was lost and a replacement stock certificate was issued. A copy is provided at (000870).



## INQUIRY 8

Identify the document contained as Attachment D hereto (Bates No. P0001148). State whether it is a true and correct copy of a letter dated June 30, 2003, regarding the PCSI Corporate Book and Capitalization History. With respect to such document:

Yes, the document identified as Attachment D is a correct copy of a letter dated June 30, 2003.

- (a) State whether Charles M. Austin authored the letter. If so, explain why he drafted the letter. Provide a copy of the letter from PCSI's files.

Yes, Mr. Austin was the author of the correspondence. Mr. Austin's recollection concerning the basis of drafting the letter is that Chandu Patel had passed away in March 2003. Chandu Patel was the primary source of the Company's funding to that date. In several phone calls with Divya (Chandu's oldest son) and Sonal (Chandu's daughter) it became clear to Mr. Austin that Chandu had not discussed much of his interest and investment in Preferred with his family. This letter was drafted to provide Divya and Sonal with background about Preferred and their father's intent concerning his investments in the Company. A copy is provided at (000055-000056).

- (b) Identify who is referred to by the term "we" in the statement "we did not get around to issuing any stock to Penn or me until 1999." Explain the circumstances of the 1999 stock issuance to Mr. Waugh and Mr. Austin described in the memo. Provide all relevant Documents related to such stock issuances.

Based upon the recollection of Mr. Charles Austin, the "we" referred to in paragraph 6 of Attachment B is "Preferred Communication Systems, Inc." as a company and not as individuals.

In responding to this inquiry, Preferred has provided Minutes of the meeting held on April 23, 1999 which authorized the issuance of 800,000 shares to Charles M. Austin. A copy is provided at (000781-000786). A certificate was prepared, but was lost and a replacement stock certificate was issued. A copy is provided at (000870).

Mr. Waugh was not issued stock.

- (c) Describe the sources of information relied upon in preparing the letter. Provide copies of all such source Documents.

Mr. Austin believes that based upon the informal style and content of this letter, no sources were reviewed during its drafting process.

## INQUIRY 9

Identify the Document contained as Attachment E hereto (Bates No. P0000525-549). State whether it is a true and correct copy of a memorandum from Pendleton Waugh to Sonal C Patel dated July 11, 2005 regarding Preferred Communication Systems Inc.'s Action Items. With respect to such document:

This document is a copy of a memorandum Pendleton Waugh prepared and forwarded to Sonal Patel in July 2005.

- (a) State whether the item is contained in PCSI's files. State whether Mr. Waugh authored the Memorandum and if so, if it was done on behalf of PCSI. Provide a copy of the July 11, 2005, Memorandum including all exhibits and attachments.

After review and a due diligence search, no copy is contained in the corporate files. A review of computer files has been undertaken. Should a copy be located it will be provided as a supplement to this response. Mr. Waugh prepared such memorandum at the verbal request of Mr. Austin.

- (b) At Bates No. P0000553, the document references a Phase II Confidential Private Offering Memorandum. Provide a copy of the referenced Phase II Confidential Private Offering Memorandum and any amendments or exhibits thereto.

Preferred asserts its Attorney-client Privilege on the Documents identified as Attachment E (bates P0000553). This document and a number of others were addressed to our legal counsel Lance Hardenburg. Without waiving the attorney client privilege on this document and the matters it relates to, Preferred provides the following response.

At the offices of Hallett & Perrin, P.C. on May 27, 2005, a meeting was held to discuss corporate legal matters related to Preferred. Included in the original discussion was the filing of a Regulation D notice and state filing notices and the preparation of a PPM which for lack of an official name was designated Phase II. Subsequently, Charles M. Austin decided not to move forward on the Phase II offering referred to in (Bates P0000553). As of the date of this response no Phase II Confidential Private Offering Memorandum or Phase II private offering has been issued.

INQUIRY 10

With respect to the document contained at Bates No. PCS100 106, provide the following information:

- (a) Provide the full name of and identify the individual referenced as "Matt." State his relationship to Mr. Waugh and PCSI.

"Matt" is Charles M. (Matt) Austin, President and Chief Executive Officer of Preferred.

- (b) Identify "the Family" referenced. State "the Family's" relationship to Mr. Waugh and PCSI.

The "Family" is the family of Chandu Patel.

- (c) Identify the "Voting Trust."

The "Voting Trust" is the Raymond A. Hebrank Voting Trust.

- (d) Describe the nature and extent of the "shares" referenced.

The "shares" referenced are those shares of Common Stock previously issued to Charles M. Austin and to be issued to the Raymond A. Hebrank Voting Trust.

- (e) Explain what is referred to in the phrase "the shares you and the Voting Trust are receiving."

As noted in the response to Question #10(d). The "shares" referenced are those shares of Common Stock previously issued to Charles M. Austin and to be issued to the Raymond A. Hebrank Voting Trust.

## INQUIRY 11

Provide Charles M. Austin's curriculum vitae. Describe how Mr. Austin came to hire Mr. Waugh as a consultant for PCSI.

A copy of Mr. Charles M. Austin's CV is provided at (001177).

In 1996 Mr. Waugh was a director and president of Telecellular, Inc. ("Telecellular"), a Delaware corporation formed in December 1993. At that time, Telecellular claimed that it held the contract rights to construct and manage 800 MHz SMR licenses on sites in Puerto Rico comprising 225 paired trunked system channels. In August 1996, Mr. Waugh contacted Mr. Austin and inquired whether he or Robert Goldberg, his business partner, would be interested in assisting Telecellular in obtaining construction and management agreements with the holders of several hundred 800 MHz SMR General Category ("GX") site licenses in Puerto Rico and the U.S. Virgin Islands. After negotiating a mutually acceptable compensation arrangement, Mr. Goldberg contacted the holders of approximately 140 800 MHz SMR GX site licenses in Puerto Rico and the U.S. Virgin Islands and persuaded such holders to execute construction and management agreements with Telecellular.

By May 1997 Mr. Waugh had resigned from his positions with Telecellular and had become a consultant to that company. In October 1997 he began contacting third parties to serve as license brokers on Telecellular's behalf and assist it in purchasing several hundred 800 MHz SMR GX licenses in Puerto Rico and the U.S. Virgin Islands. Telecellular then lacked the funds to acquire such licenses directly.

Mr. Austin formed Preferred to purchase such 800 MHz SMR GX licenses and then resell them as a package to Telecellular. In exchange for providing consulting services based on his knowledge of the wireless industry and licensing in Puerto Rico, Mr. Austin agreed that Mr. Waugh would receive one-third of the profit from their sale of such licenses to Telecellular.

In May 1998 Telecellular determined not to purchase the 800 MHz SMR GX licenses purchased by Preferred which had been incorporated in January 1998. Instead, in July 1998 Telecellular fired Mr. Waugh as a consultant and commenced litigation in a Texas court against Preferred and Messrs. Austin, Bishop and Waugh on a breach of contract claim. Telecellular also filed a petition to deny with the FCC to prevent the transfer of more than one hundred 800 MHz SMR GX site licenses to Preferred. In October 1998, Mr. Austin asked Mr. Waugh to perform consulting services on Preferred's behalf primarily in connection with its efforts to secure funding to purchase equipment and portable radios to construct its 800 MHz SMR GX site licenses in Puerto Rico and the U.S. Virgin Islands. Mr. Waugh began working as a consultant to Preferred shortly thereafter.

## INQUIRY 12

### Provide Gerald E. Setka's curriculum vitae.

Gerald E. Setka's curriculum vitae is provided as (000057-000059).

- (a) Describe how and specify when Mr. Setka acquired a 19.9% ownership share of PCSI voting stock. Provide all Documents related to such ownership.

Pursuant to an agreement (000060-000061) with Preferred, Mr. Setka loaned funds to PCSI in 1998-1999 for the purchase of broadcast radio equipment. Pursuant to such agreement, Mr. Setka would hold a maximum of a 5% ownership interest in Preferred. As a result of a delay in repayment of the loan, the Company issued an additional 35,000 shares to Mr. Setka. Mr. Setka made a cash investment for an additional 10,000 shares.

At the time of the repayment of the loan (June 30, 1999), Certificate C-16 was issued to Mr. Setka. As noted in the forms 175 and 601/602 filed in 2000, the verbal agreements to issue shares to the Raymond A. Hebrank Voting Trust and the voting trust to be formed by the Bishops were taken into consideration, thereby maintaining Mr. Setka's 195,000 shares below a 10% ownership interest in the Company.

This approach was the basis of not including Mr. Setka in the Preferred Acquisitions Inc.'s filed 175 of July 17, 2000, in Preferred Acquisitions Inc.'s, filed 601 on September 27, 2000 and Preferred Acquisitions Inc.'s filed 602 on September 27, 2000. By contract and agreement Mr. Setka was to hold no more than a slightly over 5% ownership interest in Preferred.

In response to the June 30, 2006 LOI, Mr. Austin reported a 19.9% ownership interest for Mr. Setka. This response was based upon the Company's total number of shares then actually issued and outstanding shares as of that date. This calculation did not reflect verbal agreements to issue shares to the Raymond A. Hebrank Voting Trust and the voting trust to be formed for the benefit of the Bishops.

- (b) Describe how and specify when Mr. Setka acquired 14.09% of total equity of PCSI.

This calculation was made as if the Company's Series A Preferred shares were converted into Common shares, thereby reducing Mr. Setka's ownership from 19.9% to 14.09%. Again, these percentages do not reflect the verbal agreements to issue shares to the Raymond A. Hebrank Voting Trust and the voting trust to be formed for the benefit of the Bishops. It should be noted: the Series A Preferred Stock conversion rights expired on March 1, 2002, but are proposed to be re-instated in the Company's Recapitalization Plan.

### INQUIRY 13

Provide Linda A. McClain's and Michelle D. Bishop's curriculum vitae. Describe the circumstances relating to Ms. Bishop's departure as Secretary/Treasurer of PCSI, and describe the nature and extent of any relationship, if any. Ms. Bishop currently has with PCSI.

Linda McClain's curriculum vitae is provided at (000062). A search of the old corporate records from 1998-2002 did not yield an old copy of Ms. Bishop's resume.

Upon learning of his pending conviction and discussions with Jay Bishop and Michelle Bishop, Mr. Austin terminated Ms. Bishop's association with the Company. As of the date of this response, no shares have been issued to Michelle Bishop or anyone associated with the Bishops. Ms. Bishop remains a personal friend of Charles M. Austin, but has no relationship or contact with the Company.

## INQUIRY 14

PAI filed its Auction 34 FCC Form 175 short-form bid application on July 17, 2000. Exhibit A to FCC Form 175 states that Charles M. Austin holds 100% of PCSI voting stock. In Statement 3 of Exhibit A, however, PAI lists the fully diluted ownership of PCSI voting stock as 32.7% attributable to Charles M. Austin, 32.7% attributable to the Raymond A. Hebrank Irrevocable Voting Trust, and 32.7% attributable to the Bishop Irrevocable Voting Trust.<sup>2</sup> Note 1 to Statement 3 of Exhibit A specifies that PCSI "has agreed to issue additional shares that would dilute Austin's ownership, conditioned upon receipt of prior FCC approval."

- (a) Identify who prepared the above-referenced statements in Exhibit A of PAI's Form 175.

Michelle Bishop, then Corporate Secretary for Preferred and Director/Corporate Secretary for PAI, drafted, certified and filed the Short Form 175 on behalf of PAI. Mrs. Bishop relied upon the legal advice of the Company's FCC attorney, David Kaufman (Brown Neitert and Kaufman) who in particular crafted the language of notes 1 and 2 to statement 3 of Exhibit A.

- (b) State when the 800,000 shares of stock were issued to Mr. Austin. Provide copies of all Documents regarding the issuance of those shares.

In responding to this inquiry, Preferred has provided Minutes of the meeting held on April 23, 1999 which authorized the issuance of 800,000 shares to Charles M. Austin. A copy is provided at (000781-000786). A certificate was prepared, but was lost and a replacement stock certificate was issued. A copy is provided at (000870).

- (c) State how many shares of stock Mr. Austin now holds. Provide copies of all Documents regarding the issuance of those shares.

In responding to this inquiry, Preferred has provided Minutes of the meeting held on April 23, 1999 which authorized the issuance of 800,000 shares to Charles M. Austin. A copy is provided at (000781-000786). A certificate was prepared, but was lost and a replacement stock certificate was issued. A copy is provided at (000870).

- (d) State when the Bishop Irrevocable Voting Trust ("Bishop Trust") was created. Provide copies of the Bishop Trust and all Documents related to the Bishop Trust.

No voting trust for Jay Bishop and/or Michelle Bishop ever has been created. On numerous occasions Preferred has requested that the Bishops create a voting trust and that it be executed and a copy provided to Preferred.

- (e) State whether PCSI issued shares to the Bishop Trust or its trustee(s) and, if so, describe how many shares were issued and when. Provide copies of Documents related to all such stock issuances to the Bishop Trust.

No shares have been issued to a Bishop trust or any trustee of a trust for the benefit of the Bishops.

- (f) State how many shares of PCSI stock were issued as of July 17, 2000.

1,018,581.

- (g) State whether PCSI filed an application for Commission consent to the ownership structure specified in Statement 3 of Exhibit A and, if so, when. Provide a copy of the request and any related Documents. Also, identify all individuals who prepared the request and all individuals who provided input into the request.

No commission consent to ownership statement has been filed with the FCC since the Company's Form 601 and Form 602 filed on September 27, 2000.

- (h) State whether the referenced transaction occurred. If so, state when and whether the number of shares has changed and describe the nature of the changes and when they occurred.

The referenced transaction never occurred.

- (i) Describe the current status of these shares.

As noted above, no shares have been issued.



## INQUIRY 15

PAI filed its Auction 34 FCC Form 602 (FCC Ownership Disclosure Information for the Wireless Telecommunications Services), on September 18, 2000. Therein, it identified PCSI as a disclosable interest, with Charles M. Austin holding 100% of the common shares (voting) of PCSI. PAI did not list any other disclosable interests.

- (a) State whether PAI had any disclosable interests other than Charles M. Austin as of September 18, 2000. If so, identify such other disclosable interests and describe fully why PAI did not identify such other disclosable interests in its FCC Form 602 that it filed on September 18, 2000.

As of September 18, 2000 PAI had no other disclosable interests. Preferred owns 100% of PAI, and Charles Austin owned a greater than 50% interest in Preferred. Based upon Section 1.2112 of the Commission's rules he was to be reported as owning 100% of PAI. No other entity owns 10% or more of the Applicant.

- (b) State whether the representations made by PAI in its Form 602 that it filed on September 18, 2000 have remained true and accurate during the time period covered by this supplemental LOI. If not, explain fully why such representations are no longer accurate, state whether PAI filed an update or modification to its Form 602, and provide copies of all Documents relating to any changes in the representations made in the subject FCC Form 602, including any filed amendments or modifications to the form.

Yes. The statements made in the form 602 remain true and accurate as of the date of this response. Based upon the FCC rules for form 602 applicable at the time of filing, PAI's only shareholder was Preferred. As such, Mr. Austin whose interest in the Company exceeded 50%, correctly was reported as holding a 100% ownership interest in PAI (see instructions for form 602 and section 1.2112 of the Commission's rules). As of the date of this response, no changes have been filed to the 602 for PAI in reliance upon FCC rules establishing a "substantial or significant change" standard as the basis for such filing.

The verbal agreements with Messrs. Waugh and Hebrank and the Bishops with respect to the Company's issuance of shares of Common Stock to the Raymond A. Hebrank Voting Trust and a voting trust to be established for the Bishops have remained in effect during the period of this LOI. However, the Company has proposed alternative agreements, which Mr. Hebrank and the Bishops are considering. Due to the anticipated outcome of these negotiations and ratification of the Company's Recapitalization Plan, Preferred anticipates that it will be filing an updated form 602 in the near future.

## INQUIRY 16

PAI filed its Auction 34 FCC Form 601 (Application for Wireless Telecommunications Bureau Radio Service Authorization), on September 27, 2000, and states that **Charles M. Austin holds 800,000 shares of PCSI common stock representing 100% of the presently issued and outstanding shares.** The Form 601 also notes that PCSI "has agreed" to issue additional shares that would dilute Mr. Austin's ownership, conditioned upon receipt of prior FCC approval, and that PCSI intends to file the approval application in the near future.

- (a) State whether the above-referenced statement was accurate on September 27, 2000. If not, describe any inaccuracies.

In responding to Part 3 Item 4 (Indirect Ownership—Amount Held) of Exhibit A to the form 601 filed on September 27, 2000, Ms. Bishop relied upon the ownership reporting rules under Section 1.2112 of the FCC's rules; "if the ownership percentage for an interest in any link in the chain exceeds 50 percent or represents actual control, it shall be treated and reported as if it were a 100 percent interest." Based upon the FCC's indirect ownership rule, Mr. Austin, who then owned 50% or more of the Common Stock of Preferred, would be considered to own 100% of PAI's stock. However, contrary to Ms. Bishop's response to Part 3 Item 2 and Part 3 Item 4 of Exhibit A, Mr. Austin did not then own 100% of Preferred's issued and outstanding shares of Common Stock. It is the belief of Mr. Austin that Mrs. Bishop simply misinterpreted the question and answered it as she answered all previous indirect ownership questions.

- (b) State whether this statement remained accurate during the time period covered by this LOI. If not, identify any inconsistencies and state whether PAI filed an update or modification to its Form 601. If so, provide copies.

Mr. Austin has maintained more than a 50% ownership interest and actual control of Preferred during the period frame covered by this LOI.

The verbal agreements with Messrs. Waugh and Hebrank and the Bishops with respect to the Company's issuance of shares of Common Stock to the Raymond A. Hebrank Voting Trust and a voting trust to be established for the Bishops have remained in effect during the period of this LOI. However, the Company has proposed alternative agreements, which Mr. Hebrank and the Bishops are considering. Due to the anticipated outcome of these negotiations and ratification of the Company's Recapitalization Plan, Preferred anticipates that it will be filing an updated form 602 in the near future.

- (c) State whether PCSI filed any applications for Commission consent to the ownership structure specified in Statement 3 of Exhibit A and, if so, when. Provide a copy of all such requests. Identify all individuals who prepared the request and all individuals who provided input into the request.

No such request has been filed.

- (d) State how many shares of PCSI stock were issued as of September 27, 2000.

1,018,581.

## INQUIRY 17

State whether there are now or ever have been any agreements, contacts, understandings or arrangements - oral or written - relating to employment, consulting, independent contracting, and PCSI stock ownership between PCSI and Mr. Waugh and/or Mr. Hebrank, and/or any trust in the name of either or both of these individuals, or for which either or both is/are a grantor/beneficiary. If so, list by: (a) type of agreement; (b) parties to the agreement; (c) date; (d) whether the agreement is still effective; and (e) whether the agreement has been modified, extended, or terminated by any other Documents. Provide executed copies of such agreements and supporting Documents. If only unexecuted copies are available, so state and provide copies of the unexecuted documents.

There are no written agreements, contracts, understandings or arrangements either oral or written between PCSI and either Mr. Pendleton Waugh or Mr. Raymond Hebrank on behalf of Pendleton Waugh which attach any compensation earned as a consultant to PCSI to issuance of any stock ownership of PCSI. Mr. Waugh has proposed such arrangements in the past in drafts of consulting agreements prepared either by legal counsel or by Mr. Waugh himself, but as of the date of this response no agreements have been negotiated and executed. The unexecuted drafts which were prepared by legal counsel are provided at (001061-001111). Mr. Waugh has been retained on an annual basis since 1998 as a consultant by oral agreement between Mr. Waugh and Mr. Charles Austin.

## INQUIRY 18

State whether there are or have ever been any agreements, contracts, understandings, or arrangements - oral or written - relating to employment, consulting, independent contracting, PCSI stock ownership between PCSI and Jay and/or Michelle Bishop, and/or any trust in the name of either or both of these individuals, or for which either or both is/are a grant or beneficiary. If so, list by: (a) type of agreement; (b) parties to the agreement; (c) date; (d) whether the agreement is still effective; and (e) whether the agreement has been modified, extended, or terminated by any other Documents. Provide executed copies of such agreements and supporting Documents. If only unexecuted copies are available, so state and provide copies of the unexecuted documents.

There are no written agreements, contracts, understandings or arrangements either oral or written between PCSI and either Mr. Jay Bishop or Mrs. Michelle Bishop or any trust which has been discussed but not created which attach any compensation earned as a consultant or employee of PCSI to issuance of any stock ownership of PCSI. Mr. Bishop was a consultant to the company and Mrs. Bishop was an employee of the company. The Company does not have and did not have at the time of Mrs. Bishop's employment any employee stock plan.

#### INQUIRY 19

Identify the names and addresses of all PCSI creditors, investors, and/or shareholders from January 1, 1998, to Present, with a description of the financial stake of each in PCSI.

Answer to Inquiry 19 is provided at (000064-000068).

## INQUIRY 20

Identify all employees, independent contractors, agents, managers, and/or consultants employed or retained by PCSI during the time period covered by this LOI.

- (a) For each such individual, describe his/her job duties and provide copies of all employment, consulting, compensation, or service agreements concerning the individual's association with PCSI. If any such agreements were oral agreements, explain the terms of such agreements.

### Staff and Consultants

Detailed below is a year-by-year listing of those individuals who were involved in the operation of Preferred.

1998	Role
Charles Austin	President and CEO, Chairman of the Board
Michelle Bishop	Secretary/Treasurer
Charles Guskey	Provided Operating Capital Loans
Janel Roberts	Accounting Services
Robert Goldberg	License Acquisitions
Brown, Nietert & Kaufman	FCC Counsel
Weil Gotshal & Manges	Legal Counsel
O'Lavery & Ungar	Legal Services
Neu, Minnich, Comito & Neu	Legal Services
Concepts To Operations, Inc.	RF Engineering
Pedro Piza	Contract Services
Crown Castle International Corp. de Puerto Rico	Puerto Rico Engineering Services
Jay Bishop	Consultant
Pendleton Waugh	Consultant
Monte R. Lee & Company	RF Engineering Services

In 1998, Charles Austin managed the day-to-day operations of the Company and was responsible for all decisions made by or on behalf of Preferred. A majority of Company's documents were reviewed by him and prepared for his signature. Ms. Bishop served as the Secretary/Treasurer of Preferred and worked with Lori Tobin at Brown, Nietert & Kaufman on licensing and FCC filing matters. Mr. Guskey provided the Company's initial financing. Janel Roberts assisted Charles Austin with respect to accounting and bookkeeping matters. The Company retained Brown, Nietert & Kaufman, a law firm headquartered in Washington, D.C. that specializes in FCC matters to assist Preferred with various FCC filings and regulatory issues. Robert Goldberg assisted the Company in purchasing incumbent 800 MHz GX site licenses in Puerto Rico and the U.S. Virgin Islands. Jay Bishop, the husband of the Secretary/Treasurer, also assisted the Company in acquiring these 800 MHz GX licenses. In August 1998, Preferred also retained Pendleton Waugh as a consultant to provide FCC licensing advice. In April and October 1998, the Company respectively retained O'Lavery & Ungar, and Neu, Mimich, Comito and Neu as its outside legal counsel to represent it (1) in negotiating a possible sale of its 800 MHz GX site licenses and (2) against a frivolous lawsuit commenced in Iowa. In

November 1998, the Company retained Weil Gotshal & Manges to represent it in litigation commenced against the Company in Dallas, Texas. During 1998 Preferred retained Concepts To Operations, Inc. as its RF engineering consulting firm. During this year, the Company also utilized the RF engineering and site acquisition and construction services of Crown Castle International Corp. de Puerto Rico and Pedro Piza, respectively, in Puerto Rico with respect to Preferred's timely construction of its 800 MHz GX site licenses located in Puerto Rico and the U.S. Virgin Islands.

1999	Role
Charles Austin	President and CEO, Chairman of the Board
Michelle Bishop	Secretary/Treasurer
Robert Goldberg	License Acquisitions
Brown, Nietert, & Kaufman	FCC Counsel
Weil Gotshal & Manges	Legal (including Corporate) Counsel
Russell Reynolds & Associates	Executive Search
Adsuar, Muniz, Goyco & Besosa	Puerto Rico Legal Counsel
Robert Forrester	Corporate Counsel
Gerard Singer & Levick	Legal Services
Neu, Minnich, Comito & Neu	Legal Services
Concepts To Operations, Inc.	RF Engineering
Ray Hebrank	Accounting Consultant
Janel Roberts	Accounting Services
Jay Bishop	Consultant
Pendleton Waugh	Consultant (Until July 29, 1999)
McConnell Valdes	Puerto Rico Legal Counsel
Bond & Pecaro	Consulting Firm
Capital Alliance Corporation	Investment Banking Services

In 1999, Charles Austin managed the day-to-day operations of the Company and was responsible for all decisions made by or on behalf of Preferred. A majority of Company's documents were reviewed by him and prepared for his signature. Ms. Bishop continued to serve as Preferred's Secretary/Treasurer and worked with Lori Tobin at Brown, Nietert & Kaufman's office on licensing and FCC filing matters. Janel Roberts continued to assist Charles Austin with respect to accounting and bookkeeping matters. Brown, Nietert & Kaufman continued to represent the Company with respect to FCC legal matters. Robert Goldberg worked part-time and assisted Preferred in completing its acquisition of 800 MHz GX site licenses in Puerto Rico and the U.S. Virgin Islands. Jay Bishop, the husband of the Secretary/Treasurer, also assisted the Company in completing its purchase of 800 MHz GX licenses. Through July, Preferred continued to retain Pendleton Waugh as a consultant to provide FCC licensing advice. Preferred also retained Russell Reynolds & Associates to conduct an executive search for a Chief Operating Officer. The Company engaged Weil, Gotschal & Manges and Robert Forrester its corporate legal counsel during portions of the year. Preferred continued to retain Weil, Gotshal & Manges and Neu, Minnich, Comito and Neu as outside litigation counsel to represent with respect to the successful settlement of or other successful winding-up of litigation commenced against Preferred in 1998. The Company retained Gerard Singer & Levick as its outside bankruptcy counsel to represent Preferred in a possible purchase of any assets as a result of bankruptcy. Preferred continued to retain Concepts To Operations, Inc. as its RF engineering firm. Early in the year the Company contracted Raymond Hebrank to perform certain accounting services. Seeking to

acquire additional 800 MHz spectrum in Puerto Rico, the Company retained the services of McConnell Valdes and Adsuar, Muniz, Goyco & Besosa in Puerto Rico for general corporate legal work and advice. In April Preferred retained Bond & Pecaro to conduct extensive research and prepare a business plan and an appraisal of the Puerto Rican wireless communications market.

2000	Role
Charles Austin	President and CEO, Chairman of the Board
Michelle Bishop	Secretary/Treasurer
Brown, Nietert, & Kaufman	FCC Counsel
Adsuar, Muniz, Goyco & Besosa	Puerto Rico Legal Counsel
Gerard Singer & Levick	Legal Services
Rini, Coran & Lancellotta	Consulting Services
Mark Saltzman	Legal Services
Jorge Toro-McCown	Puerto Rico Legal Services
Janel Roberts	Accounting Services
Neu, Minnich, Comito & Neu	Legal Services
Concepts To Operations, Inc.	RF Engineering
Bond and Pecaro	Consulting Firm
Brad Austin	Auction Team
Jay Bishop	Consultant
Pendleton Waugh	Consultant (until December)
Capital Alliance Corporation	Investment Banking Services

In 2000, Charles Austin managed the day-to-day operations of the Company and was responsible for all decisions made by or on behalf of Preferred. A majority of the Company's documents were reviewed by him and prepared for his signature. Ms. Bishop continued to serve as the Secretary Treasurer of the corporation and worked with Lori Tobin at Brown, Nietert, & Kaufman's office on all things related to licensing and FCC filings. Janel Roberts continued to assist Charles Austin in the areas of accounting and bookkeeping. Brown, Nietert & Kaufman continued to be our primary FCC legal counsel. Jay Bishop, the husband of the Secretary/Treasurer, worked on license acquisitions. PCSI continued its relationship with Pendleton Waugh, as a consultant, to provide telecom and FCC licensing advice for a portion of the year. Neu, Mimich, Comito & Neu continued to be used for legal defense against several frivolous legal actions taken against the Company. The law firm of Gerard Singer & Levick provided legal advice concerning acquisition of certain assets in U.S. Bankruptcy proceedings. PCSI continued receiving the engineering services of Concepts To Operations. Adsuar Muniz, Goyco & Besosa maintained as primary firm in Puerto Rico for general corporate work. In addition, PCSI retained Rini, Coran & Lancellotta for spectrum assistance in reviewing various MMDS and LMDS licenses. Mark Saltzman was retained for litigation support on internal matters to the corporation. Jorge Toro-McCown provided legal services for additional license acquisition in the Puerto Rican market.

2001	Role
Charles Austin	President and CEO, Chairman of the Board
Michelle Bishop	Secretary/Treasurer (Ending on 5/30/01)
Linda McClain	Secretary/Treasurer (Beginning on 5/31/01)
Charles Guskey	Consultant



John Powers  
 EquiCap Partners, LLC  
 Brown, Nietert, & Kaufman  
 Woods & Woods  
 Adsuar Muniz, Goyco & Besosa  
 Mark Saltzman  
 Concepts To Operations, Inc.  
 Jay Bishop  
 Pendleton Waugh

Consultant  
 Investment Banking Consultants  
 FCC Counsel  
 Puerto Rico Legal Services  
 Puerto Rico Legal Counsel  
 Legal Services  
 RF Engineering  
 Consultant (Ending April 2001)  
 Consultant (Beginning November 2001)

In 2001, Charles Austin managed the day-to-day operations of the company and was responsible for all decisions made by or on behalf of Preferred. With the completion of FCC Auction 34, the need for additional staff and personnel increased considerably. While a majority of the documents from the corporation were prepared for Mr. Austin's signature, additional staff assisted him in the performance of his duties. In May 2001, Ms. Bishop resigned from her position as Secretary/Treasurer of Preferred. Linda McClain replaced Ms. Bishop as Secretary/Treasurer of Preferred. In addition to her duties as an officer of Preferred, Ms. McClain began providing accounting services for the Company. Having paid for the EA authorizations in December 2000, Charles Guskey returned and redrafted the Company's business and marketing plans and assisted the Company in negotiating with Motorola, Inc. with respect to the construction of a major SMR system in Puerto Rico and the U.S. Virgin Islands. During March-May, Preferred sought to recruit John Powers as its Chief Operating Officer but could not reach a mutually acceptable employment agreement with him. In November, Preferred retained Woods & Woods to assist it with respect to litigation matters in Puerto Rico. Seeking to acquire additional 800 MHz spectrum in Puerto Rico and to construct a major SMR system in Puerto Rico and the U.S. Virgin Islands, the Company continued the services of Adsuar Muniz, Goyco & Besosa in Puerto Rico for general corporate legal work. Jay Bishop, the husband of then Secretary/Treasurer, assisted the Company in acquiring additional 800 MHz site licenses acquisitions until May 23rd. Upon his felony conviction at trial and subsequent sentencing hearing, both he and his wife terminated their involvement with Preferred. In November, the Company renewed its relationship with Pendleton Waugh as a consultant who provided FCC licensing advice. Preferred retained EquiCap Partners, LLC to assist it in securing considerable equity capital and debt financing to construct a major SMR system in Puerto Rico and the U.S. Virgin Islands. The Company continued to retain Concepts To Operations to provide consulting services focusing on engineering and operational design of the proposed 800 MHz system both in Puerto Rico and the U.S. Virgin Islands and the continental United States.

## 2002

## Role

Charles Austin	President and CEO, Chairman of the Board
Linda McClain	Secretary/Treasurer
Charles Guskey	Consultant
Kevin Hessee	Consultant
Edward Aruda	Contract Services
Brown, Nietert, & Kaufman	FCC Counsel
Hallett & Perrin	Corporate Counsel
James Roberts	Consulting Services
Concepts to Operations, Inc.	RF Engineering